

[REDACTED]

CERTIFIED

[REDACTED]

Date: OCT 29 1986

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(4) of the Internal Revenue Code.

According to your Articles of Incorporation you were formed to enforce and administer the covenants and restrictions for [REDACTED] [REDACTED] [REDACTED] as well as to acquire, own, operate and maintain or lease the water utility facilities serving [REDACTED] [REDACTED] [REDACTED] if conveyed or leased to it by the developers of [REDACTED] [REDACTED] [REDACTED].

The current activities of your organization consist of determining fees necessary to operate and maintain the water system and the common areas. You hold a one day clean-up in which you maintain the roadways and common areas which consist of a swimming pool, tennis court, picnic shelter and recreational area.

Membership in your corporation shall consist of every person or group of persons, or entity which is the record owner of a lot within [REDACTED] [REDACTED] [REDACTED].

Section 501(c)(4) of the Internal Revenue Code grants exemption to civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

Revenue Ruling 72-197, 1972-1 C.B. 149 states in part, that a voluntary organization formed by a developer to administer and enforce covenants for preserving the architecture and appearance of a housing development and to own and maintain common green areas, streets, and sidewalks for the use of development residents is exempt under Section 501(c)(4) of the Code.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Code	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		
Surname	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]		
Date	7/12/86	7/20/86	10/22/86	10/24/86	11/1/86		

Section 1.501(c)(4)-1 of the Income Tax Regulations states (a) Civic organizations-(1) In general. A civic league or organization may be exempt as an organization described in Section 501(c)(4) if--

- (i) It is not organized or operated for profit; and
- (ii) It is operated exclusively for the promotion of social welfare.

(2) Promotion of social welfare - (i) In general. An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterments and social improvements. A "social welfare" organization will qualify for exemption as a charitable organization if it falls within the definition of "charitable" set forth in paragraph (d) (2) of Section 1.501(c)(3)-1 and is not an "action" organization as set forth in paragraph (c)(3) of Section 1.501(c)(3)-1. (ii) Political or social activities. The promotion of social welfare does not include direct or indirect participation or intervention in political campaigns on behalf of or in opposition to any candidate for public office. Nor is an organization operated primarily for the promotion of social welfare if its primary activity is operating a social club for the benefit, pleasure, or recreation of its members, or is carrying on a business with the general public in a manner similar to organizations which are operated for profit. A social welfare organization may qualify under Section (c)(4) even though it is an "action" organization described in paragraph (c)(3) (ii) or (iv) of Section 1.501(c)3-1 if it otherwise qualifies under this Section.

(b) Local associations of employees. Local associations of employees described in section 501(c)(4) are expressly entitled to exemption under Section 501(a). As conditions to exemption, it is required (1) that the membership of such an association be limited to the employees of a designated person or persons in a particular municipality, and (2) that the net earnings of the association be devoted exclusively to charitable, educational, or recreational purposes. The word "local" is defined in paragraph (b) of Section 1.501(c)(4)-1. See paragraph (d)(2) and (3) of Section 1.501(c)(3)-1 for reference to the meaning of "charitable" as used in this Section.

The Internal Revenue Service takes the position that in order for an organization to qualify for exemption from Federal Income Tax as a social welfare organization described in Section 501(c)(4) of the Code, it must be primarily engaged in promoting in some way the common good and general welfare of the community as a whole.

According to Revenue Ruling 74-29, 1974-1 C.B. 131, the common areas or facilities a homeowners' association owns and maintains must be for the use and enjoyment of the general public in order for the association to qualify for exemption under Section 501(c)(4).

We have concluded, based upon the facts and evidence on file, that you do not qualify as a social welfare organization within the meaning of Section 501(c)(4) because you are operated essentially for the private benefit of your members. You are not primarily engaged in activities for the common good and general welfare of the community as a whole.

You are required to file Income Tax Returns, Form 1120, or Form 1120-B annually, with your District Director.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 992, Exempt Organization Procedures for Adverse Determinations, which explains in detail your rights and procedures.

Please keep this determination letter in your permanent records.

If you agree with this determination please sign and return the enclosed Form 6018.

Sincerely,

